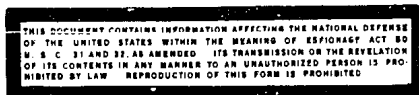


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OPERATING FUNDS IN SOCIALIST INDUSTRY
AND THE FUNCTION OF THE BANK

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To assure an uninterrupted process of planned production in industrial plants, certain funds known as "enterprise-owned funds" are placed at the disposal of socialist enterprises.

The conception of enterprise-owned funds is, however, relative, as any funds in socialist enterprises belong primarily to the state and are designed to reinforce the economic control of production processes. Under this plan, every enterprise participates in a single process of distribution of socialist production.

The funds are extended under the following conditions: (a) Every enterprise is provided with the minimum of operating funds necessary to fulfill and exceed the production plan in accordance with the approved plan. (b) The funds are allotted for an extended period to permit easier handling and encourage their accumulation. (c) Bank credits are used to finance seasonal production increases, timely stockpiling of raw materials, fuels, auxiliary production materials, short-term investments in unfinished products, stockpiling of finished products against heavy seasonal demand, and other temporary needs. (d) Enterprise-owned funds are derived primarily from accumulations in enterprises themselves and, in their absence, from accumulations of other enterprises in the same association /the term "association" (obedineniye) refers to one of the smallest administrative unit of enterprises under a ministry/ or from the budget. (e) Borrowed or short-term operating funds are derived exclusively from bank credits, which are granted only for complete utilization and payable unconditionally within a definite period. (f) Different regulations exist for the use of enterprise-owned and operating funds.

Funds acquired during the production process by exceeding plans of accumulation or through accelerated turnover must be immediately returned by the bank to the enterprise to supplement its own operating funds. This advantage helps to encourage speedy execution of production plans. Furthermore, the enterprise is

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encouraged to make every effort to improve production and reduce expenses to a minimum, to achieve the necessary economy for the accumulation of funds.

The amount of the funds to be assigned is established each year by the approved annual Industrial Finance Plan and held within limits exactly corresponding to the real needs of enterprises, which are determined by their production programs, turnover cost of materials, etc. The funds are covered by the savings accumulated by the enterprise and from budgetary subsidies, with the main part of the resources always to be derived from savings; only when the amounts accumulated from savings prove to be inadequate to cover the requirements for a growth of production may the industry have recourse to the budget.

Determination of standards by days, that is, establishing the minimum reserves of inventory values of unfinished products and the remainder of finished products, is the central problem of financial planning.

The following is an example of how the standards are fixed for various inventory values in an industrial enterprise, as based on data from a 3-month production account.

In such an account, say that raw material expense is 1,080,000 leva, fuel, 540,000 leva, and auxiliary materials, 270,000 leva. The total cost of production for the 3-month period is 2,700,000 leva.

The standards set in the turnover plan are as follows: for raw materials, 30 days, for fuel, 45 days, for auxiliary materials, 60 days, for unfinished and semifinished products, 20 days, and for finished products, 8 days.

The 3-month (90-day) outlay for raw materials is 1,080,000 leva. We shall fix one day's expense for raw materials at 12,000 leva ($1,080,000 \div 90 = 12,000$).

If the standard of raw material reserves for 30 days' production is the minimum raw material reserve, 360,000 leva ($12,000 \times 30 = 360,000$) will be required for the enterprise to guarantee uninterrupted production.

The standards for fuel, which are 270,000 leva in the given example, are computed the same way ($540,000 \div 90 \times 45$); and for auxiliary materials, 180,000 leva ($270,000 \div 90 \times 60$).

The standard for finished products is calculated with reference to the average daily production, obtained from production accounts.

In the given example, the average daily production is 30,000 leva ($2,700,000 \div 90 = 30,000$).

The standard for finished products is fixed at 8 days, which corresponds to a value of 240,000 leva ($30,000 \times 8$).

The standards for unfinished products and semifinished products are computed with reference to the ratification of the production plan and the established norm in days.

With the standard for unfinished products and semifinished products at 20 days and the average daily production costs at 30,000 leva ($2,700,000 \div 90$), the fixed investments in unfinished products and semifinished products will be 600,000 leva.

Calculation of expenses for the coming period is based on the corresponding average actual balances over the current year, with reference to production increases for the following planning period.

All calculations based on the above method have been collated. They represent the sum total of enterprise-owned operating funds necessary to an enterprise.

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This financial system grants the bank a position where it can conduct a systematic and timely analysis of the financial and economic activity of industrial enterprises, based on the control of loans and, more particularly, of operating funds, which is a most important factor in the national economy.

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